# LEGISLATIVE SERVICES AGENCY
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## FISCAL IMPACT STATEMENT

**LS 6668** | **NOTE PREPARED:** Dec 26, 2007
**BILL NUMBER:** SB 287 | **BILL AMENDED:**

**SUBJECT:** Building Standards.

**FIRST AUTHOR:** Sen. Breaux | **BILL STATUS:** As Introduced
**FIRST SPONSOR:**

**FUNDS AFFECTED:** X **GENERAL** | **IMPACT:** State & Local
X **DEDICATED**
**FEDERAL**

**Summary of Legislation:** *Construction of a Public Building or Structure:* The bill requires a public works contract that is for the construction of a public building or structure and is entered into after December 31, 2008, to require that the building or structure must meet at least the silver rating under the United States Green Building Council's Leadership in Energy and Environmental Design (LEED) rating system or an equivalent rating system, such as a Two Globes rating system under the Green Building Initiative's Green Globes rating system.

*Reconstruction, Repair, Alteration, or Retrofitting of Public Building or Structure:* It requires a public works contract that is for the reconstruction, repair, alteration, or retrofitting of a public building or structure and is entered into after December 31, 2008, to require that the building or structure must meet at least the standards for existing buildings under the LEED rating system or an equivalent rating system.

*State Agency Purchases:* The bill also provides that for state agency purchases, there is a 5% price preference for any electronic office equipment, including computers, monitors, printers, scanners, fax machines, and copiers, that are compliant with the United States Environmental Protection Agency Energy Star ratings.

*Assessed Value Deduction:* It allows a county fiscal body to adopt an ordinance providing a deduction from the assessed value of a newly constructed building or a rehabilitated building that is certified to meet the LEED rating system or an equivalent rating system. It requires the ordinance to specify the amount of the deduction.

*Indiana Economic Development Corporation:* The bill allows the Indiana Economic Development Corporation (IEDC) to adopt rules allowing the corporation to give priority to economic development projects that meet or surpass the standards of the LEED rating system or the rating system of the Green Building Initiative.

**Effective Date:** July 1, 2008.

**Explanation of State Expenditures:** *Department of Administration, Public Works:* The bill will increase up-front costs for the Department of Administration (DOA) to construct or reconstruct, repair, alter, or retrofit public buildings and structures to meet the silver rating under the LEED or other rating system. However, the additional cost to build using the LEED or other rating systems is indeterminate and will depend on the project undertaken. Additional construction or reconstruction, repair, alteration, or retrofitting costs may be offset by energy savings or durability in future fiscal periods.

*Department of Administration, Equipment Purchases:* The bill could increase costs for equipment purchases to the extent that a price preference for Energy Star-compliant equipment is 5%. However, energy cost savings could offset initial costs. The DOA reports that 99% of the electrical equipment purchased for the state in 2005 was compliant with the Energy Star rating.

*Assessed Value Deduction:* The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school General Fund levies attributable to all property. The state also pays 20% of the portion of operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and nonbusiness personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under this provision, subject to appropriation, annual state expenditure for PTRC and Homestead Credits is indeterminable at this time. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund.

The OEDD certification process is outlined under *Explanation of Local Revenues*. This provision could add administrative duties to the Office of Energy and Defense Development (OEDD) and the Department of Local Government Finance (DLGF). These duties may require additional funds and personnel. The OEDD is required to prescribe the application form and the approval process for LEED certification. The DLGF is required to prescribe the form for the certified statement taxpayers have to submit to the county auditor.

The funds and resources required above could be supplied through a variety of sources, including the following: (1) existing staff and resources not currently being used to capacity; (2) existing staff and resources currently being used in another program; (3) authorized, but vacant, staff positions, including those positions that would need to be reclassified; (4) funds that, otherwise, would be reverted; or (5) new appropriations. Ultimately, the source of funds and resources required to satisfy the requirements of this bill will depend upon legislative and administrative actions.

*Indiana Economic Development Corporation:* The IEDC could incur minimal cost to adopt rules concerning priority projects.

*Background Information:* Five state buildings have received LEED certification, including the Issac Ray Forensic Patient Facility at Logansport State Hospital (received silver certification); three buildings at Madison State Hospital; and the Department of Health and State Police Laboratory. The DOA incorporates some LEED standards in new capital projects depending on the circumstances of the building or facility.

Also, the DOA audits campus-type facilities for energy use. DOA indicates that audits of certain state facilities that do not have air conditioning or heating systems may not be cost-effective.

The LEED rating system has four categories for both new and existing buildings that include certification, silver, gold, and platinum standards. The rating is determined by earning points in categories, including sustainable sites, water efficiency, energy and atmosphere, materials and resources, indoor environmental quality, and innovation in design. LEED informational material indicates that existing building standards have an average return on investment of 2.6 years and annual net savings of $170,000. The Green Building Initiative is a nonprofit network of building industry leaders that works with design and building practitioners to facilitate understanding and acceptance of sensible green building practices among mainstream builders.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** Local units would have to construct and reconstruct, repair, alter, or retrofit public buildings and facilities to meet LEED rating standards.

**Explanation of Local Revenues:** *Assessed Value Deduction:* This bill authorizes a county fiscal body to adopt an ordinance providing a property tax deduction for a newly constructed building or a rehabilitated building (qualified real property) that is certified to meet the LEED silver rating under the rating system of the United States Green Building Council. The bill requires the county to specify in the ordinance the amount of the deduction that may be applied to LEED-certified property. It also authorizes the IEDC to give priority to economic development projects that meet or surpass LEED standards. The ordinance adopted by the county fiscal body will apply to the assessment year beginning in the next calendar year after the ordinance is adopted.

In order to obtain the deduction, a property owner is first required to file an application for LEED certification with the OEDD. The property owner is required to submit proof that the building in question meets the appropriate LEED silver rating standard. If the application for certification is approved, the OEDD will provide a certificate of approval to the property owner. If the OEDD receives an application for certification before May 11 of the assessment year, it is required to grant or deny the certificate of approval by June 11 of that year. Applications for certification received before the May 11 deadline and not processed by June 11 are considered approved.

Once the OEDD grants a certificate of approval, the property owner is to submit a copy of the certificate and a certified statement (in duplicate) prescribed by the DLGF to the county auditor. The property owner must file the statement between March 1 and June 11, inclusive, of the assessment year. Once the township assessor verifies the statement, the county auditor shall allow the deduction. If the application for deduction is denied, the property owner can appeal the verdict to the County Property Tax Assessment Board of Appeals (PTABOA). The PTABOA is limited to reviewing its own determinations, the township assessor's, and the DLGF's. The taxpayer must file the statement each year for which the taxpayer wishes to claim the deduction for the building in question.

This proposal may lead to new economic development, and it may encourage current property owners to renovate their property to comply with LEED standards. Generally, the addition of assessed value to the tax base provides a tax shift from existing property to the new property by spreading the tax levy over a larger tax base. On the other hand, if current taxpayers take advantage of this proposal to renovate their properties and claim the deduction, this may result in a tax shift from LEED property to non-LEED property. The actual amount of change in the AV and the tax shifts are indeterminable and will depend on property owner and local action.

The revenue for cumulative funds would be changed by the product of the fund rate multiplied by the net change in the amount applicable to that fund.

**State Agencies Affected:** DOA; Agencies making supply purchases; State public works; IEDC; DLGF; OEDD; State Fair Board; DNR Division of Forestry.

**Local Agencies Affected:** Local public works; County auditors; Township assessors; County Property Tax Assessment Board of Appeals.

**Information Sources:** Tom Coulter, DOA; www.USGBC.org; http://www.in.gov/legislative/igareports/agency/reports/ADMIN03.pdf; http://www.thegbi.org/gbi/whoweare.asp.

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